HIGH LEVEL EXPERT GROUP ON SUSTAINABLE FINANCE

General orientation

- **While EU reforms following the financial crisis managed to stabilise the financial system, the challenge is now to improve its contribution to sustainable development:**
  - The EU has been leading on the global sustainability agenda, which seeks to combine economic prosperity with environmental and social sustainability.
  - The EU also recognises that the goal of sustainability must be supported by a financial system that promotes growth in a way that is sustainable over the longer term.

The interim report of the HLEG identifies two imperatives for Europe's financial system.

- The first is to strengthen financial stability and asset pricing, by improving the assessment and management of long-term material risks and intangible factors of value creation, including those related to environmental, social and governance (ESG) issues.
- The second is to improve the contribution of the financial sector to sustainable and inclusive growth, notably by financing long-term needs such as innovation and infrastructure, and accelerating the shift to a low carbon and resource-efficient economy.

Processes and participants in the financial system

- **Fiduciary duty and related concepts:** The responsibility of directors and investors to manage long-term sustainability risks should be enshrined in their relevant duties, whether it is through fiduciary duty in common law or its equivalent in other legal systems.
- **Disclosures:** Clear, comprehensive and comparable disclosure of information on sustainability are essential to success
- **Putting sustainability at the heart of the financial system:** To deliver systemic change, ESG factors and long-term sustainability risks and opportunities will be needed in corporate governance, core indices, accounting standards and credit ratings. They will also need to be reflected in the role played by the European supervisory agencies (ESAs), such as through common guidelines and, subsequently, supervisory convergence on ESG disclosure

…Banks

- **The role of banks:** As the largest asset pool, banks have an essential role in the transition towards a sustainable financial system. To date, however, their potential contribution to sustainable development has not reached its full potential.
  - green-supportive factors or brown-penalising factors could be investigated;
  - the appropriateness of the capital framework for project finance and specialised lending should be assessed;
  - pillars II and III of prudential regulation could be strengthened with regard to sustainability.

…Other institutions

- **Insurance companies and pension funds:** Prudential regulation for institutional investors will also have to be reviewed.
- **Asset managers:** Embedding sustainability into stewardship codes and asset management agreements, and requiring asset managers to disclose how they integrate ESG factors into their strategy and vote on ESG issues.
- **Credit rating agencies and stock exchanges:** It is time for long-term sustainability risks and opportunities to move from an 'add-on' consideration to a 'built-in' feature in ratings. While EU stock exchanges are global leaders when it comes to disclosure of ESG factors, much more can be done to promote sustainability.
- **Global financial centers:** EU could establish a network of EU sustainable financial centres to exchange best practices, align standards and achieve market scale.

Mobilising capital for a sustainable economy

- Action on two fronts:
  - Shifting the current capital allocation from an unsustainable pathway to a sustainable one;
  - Filling the investment gap to ensure that objectives are achieved on time.
- A coherent policy strategy is urgently needed to translate sustainable development ambitions into investment opportunities.
- Agreeing an EU classification system of ‘sustainable’ assets would boost investor confidence and give firms a better understanding of which assets qualify as sustainable investments.
- The EU should encourage the development of sustainable financial products. This could be pursued by considering new political risk guarantees for sustainable infrastructure, and support for the development of green and social bond markets, as well as that of new sustainable financial products and services that use technology to deliver sustainable outcomes.

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- **Fostering infrastructure:** To support and facilitate these investments, the EU could create ‘Infrastructure Europe’, a dedicated organisation responsible for developing and structuring infrastructure projects and matching them with investors. This new entity would be responsible for match-making infrastructure projects…
- **Wider society:** Last but by no means least, enabling greater engagement of society by increasing literacy on sustainable finance issues, which will stimulate informed demand. The EU should support the creation of a set of publicly available corporate sustainability league tables, ranking firms on their performance against the Sustainable Development Goals.

Early Recommendations

- Develop a classification system for sustainable assets
- Establish a European standard and label for green bonds and other sustainable assets
- Clarify that fiduciary duty encompasses sustainability
- Strengthen ESG reporting requirements
- Introduce a 'sustainability test' for EU financial legislation
- Create 'Sustainable Infrastructure Europe' to channel finance into sustainable projects
- Enhance the role of the ESAs in assessing ESG-related risks
- Unlock investments in energy efficiency through relevant accounting rules